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IN THE

# Supreme Court of the United States

OCTOBER TERM, 1940.

No. 669.

PEERLESS EQUIPMENT COMPANY, *Petitioner*,

v.

W. H. MINER, INC., *Respondent*.

**On Writ of Certiorari to the United States Circuit Court of Appeals for the Seventh Circuit.**

## PETITION OF PEERLESS EQUIPMENT COMPANY FOR WRIT OF CERTIORARI TO THE CIRCUIT COURT OF APPEALS FOR THE SEVENTH CIRCUIT AND BRIEF IN SUPPORT THEREOF.

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PRESS OF BYRON S. ADAMS, WASHINGTON, D. C

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*To the Honorable the Chief Justice and Associate Justices of the Supreme Court of the United States:*

Your petitioner, Peerless Equipment Company, respectfully prays for a writ of certiorari to the Circuit Court of Appeals for the Seventh Circuit to review a judgment of that Court entered October 31, 1940.

## JURISDICTION.

The grounds of jurisdiction are:

1. The Circuit Court of Appeals for the Seventh Circuit rendered its opinion October 31, 1940; a petition for rehearing was filed within the time allowed by that Court, to-wit, on November 14, 1940, and was denied November 27, 1940.

2. This is a suit in equity under the patent statutes to determine the issues of validity and infringement of Letters Patent No. 1,730,214, issued by virtue of Section 4886-RS and the amount of the recovery to which plaintiff is entitled by reason of the infringement thereof. The statute under which jurisdiction is invoked is 240-A of the Judicial Code, 28 U. S. C., Sec. 347, as amended by the Act of February 13, 1925.

A certified Transcript of the Record in the case, with the necessary additional copies thereof, have been filed in compliance with the provisions of Rule 38 of this Court.

## SUMMARY AND SHORT STATEMENT OF THE MATTER INVOLVED.

1. The question of law here presented, arising in a patent infringement suit, relates to the impropriety of the Court of Appeals in awarding to respondent *ALL* of petitioner's profits realized from the sale of a device, old in its entirety except for the addition of a single manufacturing detail patented by respondent as an improvement.

*Related Facts:*

(a) The Master (Rec. P. 489) ruled: "The Defendant was not a wilful and wanton infringer". Petitioner therefore was innocent of any commingling of profits involving the alleged infringement.

(b) The Court of Appeals in its Opinion of October 31, 1940 (p. 22-23 Appendix) held:

"It is clear from the Record that not all shoes produced by Defendant prior to the entry of the Decree infringe."

(c) Respondent offered no evidence, and made no effort, to apportion profits attributable to the invention of the patent in suit.

(d) Petitioner voluntarily offered expert testimony under Section 70, Title 35, U. S. Code, approximately apportioning the number of Petitioner's devices that might have embodied the Respondent's invention.

2. The invention of the Johnson patent No. 1,730,214, in suit (see pages 140-145 in Physical Exhibit filed herewith of Case No. 6304) consists solely in providing a slight convexity upon the surface of the shoes or wedge of a friction draft gear for railroad cars. The draft gear is a rugged device employed to cushion blows incidental to the operation of a train, especially in the car coupling operations, and the invention of the Johnson patent has no reference to any change in the number of parts, nor in the relation of such parts, making up the draft gear to provide for this cushioning action. It is merely confined to the idea of this slight convexity on the wedging faces or surfaces of the shoes or of the wedge, of approximately the thickness of a stout sheet of paper. The purpose of this the patentee explains to be (P. 1, lines 51 to 57 of printed patent):

"a very simple expedient, which does not involve any increased expense in cost of manufacture by which adjustments of the parts, within the limits of variations necessitated by commercial manufacture, can be had to positively insure the proper contact of all the cooperating engaging sets of faces."

And, this detail feature is eliminated in the process of making and assembling the gear and is not one carried by the gear in use, (P. 4, printed copy of patent in suit, lines 12-16) to wit:

"This process of fitting of the parts to compensate for the permissible foundry variations can obviously be accomplished in the usual test of the gear before being shipped and applied to the car."

The height of the convexity is not specified in the Johnson patent, but the Circuit Court of Appeals said it could be determined by a mathematical formula (93 Fed. (2nd) at P. 104). In petitioner's gear, by the said formula, a convexity of ten one-thousandths of an inch is required to constitute an infringement (Rec. Pp. 191, 192). The patentee, Johnson, in his examination of the only specimen in evidence of petitioner's gear (Plaintiff's Exhibit No. 1) did not find this extent of convexity on any of the shoes of petitioner's gear (Rec. P. 392).

3. Draft gears without the patented improvement have been known for over thirty years. Speaking of the patented improvement, the Circuit Court of Appeals said:

"All other elements of Defendant's product were old." (Rec. P. 574)

4. On the Accounting, it was established that during the period of claimed infringement petitioner produced and sold a large number of gears that were identical in all respects with those held to be an infringement except that they did not have the claimed convexity. These gears were sold unknowingly with those having a convexity, to the same customers and for the same price. As to this the Circuit Court of Appeals said:

"It is clear from the record that not all shoes produced by defendant prior to the entry of the decree infringed, and we have held the defendant liable because of its commingling a trust estate arising from infringement with other funds received from non-infringing devices, making it impossible to ascertain how much of the sales profit was trust funds." (R. 572)

5. After entry of the decree, following the trial of the issue of infringement, petitioner inspected all shoes of its gears to make sure that none would be sold that had a convexity of the magnitude (10/1000ths inch) required by the formula to constitute an infringement. At the time of entry of the decree petitioner had on hand a large number of shoes that had been produced prior thereto. In holding that there was no presumption that petitioner infringed after the decree merely because, as respondent contended, its gears were manufactured exactly as before, the Circuit Court of Appeals said:

> "But it does not follow that Defendant is in the same situation subsequent to July 19, 1937, for upon that date Defendant began inspection and after that, according to the testimony of Hansen and Hauskins, no infringing shoe was sold or shipped by Defendant. The Master saw the method of inspection demonstrated. He saw used the gauges employed; he observed the inspectors upon the witness stand and had the best opportunity of any of us to judge of their credibility under all the facts and circumstances appearing before him. * * * The record rather is convincing that upon the adjudication that it was infringing, Defendant took reasonable steps to keep records which it had not kept before and employed effective means to prevent use of the infringing element." (R. 572)

It was shown that the slight convexities appearing on the surface of petitioner's shoes was an incident of manufacforging (R. 185). The Master found that petitioner was not a wilful infringer (R. 489).

6. Petitioner sold and is now selling its gears to the same railroads who had purchased its gears, both with and without convexity, prior to the Decree (R. 169, 170). That fact establishes that the entire market value of petitioner's gear was not attributable to the presence therein of an infringing convexity.

7. Respondent made no attempt to apportion the profits earned by petitioner in its gear business during the so-called

infringing period as between profits attributable to the basic parts of the gear, which were old, and those that might be credited to the presence of an infringing convexity on some of those gears. Respondent made no attempt to show that an apportionment was impossible.

8. Petitioner showed by recognized experts in the industry that the presence or absence of the accused convexity on the shoes of petitioner's gears had no effect upon the operativeness of petitioner's gears (R. 150, 202).

9. The respondent made no proof of actual damages although it is in the gear business in competition with petitioner (Master's Report, R. 495, 496, 501).

## THE QUESTIONS PRESENTED.

1. Where a patent is merely for an improvement that does not create the entire market value of an infringing device, is it not the law that the plaintiff seeking a recovery of the defendant's profits resulting from the sale of the device has the burden of making an apportionment of the profits attributable to the use of the patented thing?

2. Is the plaintiff, who makes no attempt at an apportionment in a case involving such a patent, entitled to recover all the defendant's profits when the defendant was not a wilful infringer and has not destroyed its books and records?

3. In a case involving such a patent, can the plaintiff, who makes no attempt at an apportionment, recover on the basis of defendant's entire profits?

4. In such a case, where the defendant affirmatively establishes that the use of the patented feature could not and did not contribute to the profits made in the infringing business, may the plaintiff, nevertheless, recover all of those profits?

5. In such a case where petitioner independently offered expert testimony under Section 70, Title 35 of the U. S.

Code that not more than 6-8/10ths per cent of the gears sold by Petitioner prior to July 19, 1937 could have a convexity of infringing proportions, should not such testimony be followed?

6. Respondent's patentee, Johnson, in his testimony before the Master on Accounting (Pp. 387-392 Rec.) established for the first time, with certainty, that the various shoes in Petitioner's device had varying degrees of convexity not in conformity with the degree of convexity upon which the Court of Appeals based its original Decision (93 Fed. (2d) at Page 104). Was the action of the Circuit Court of Appeals correct in not considering this evidence as contradictory of the formula and basis upon which its original Decision was based?

## THE OPINIONS OF THE COURTS BELOW.

On the issue of apportionment of profits the Master found that he was bound by the decision of the Circuit Court of Appeals that the convexity of the Johnson patent in suit was essential to the desired results of the parties, and therefore that he must award to respondent all of the profits made by petitioner from its sales of draft gears during the accounting period (R. 500). The Master also found that he could not consider the evidence that petitioner had sold large numbers of non-infringing gears prior to July 19, 1937 (R. 477). He found that petitioner ceased infringement on July 19, 1937 (R. 479-480).

The District Court held that petitioner did not cease infringement until December of 1937 and awarded to respondent all of petitioner's profits on the sale of draft gears throughout 1936 and 1937 (R. 517, 518).

The Circuit Court of Appeals held that petitioner had ceased to infringe in July, 1937 so reversed the District Court as to the length of the infringing period (R. 572, 573). It found that many of petitioner's gears sold prior to July 19, 1937 were non-infringing (R. 572) but, because of the fact that defendant had kept no record that would show which of its gears were infringing and which non-infring-

ing, it must account for all gears sold prior to July 19, 1937 on the ground that the failure to make such records caused confusion (R. 570, 571). Petitioner offered evidence based on the law of possibilities applied to facts and figures elsewhere established by the record, that not to exceed 6.8 per cent of the gears sold prior to July 19, 1937 could have had a convexity of infringing proportions (R. 204-206).

Not only did the Circuit Court of Appeals hold that defendant must account for all gears sold prior to July 19, 1937, despite the fact that all such gears concededly did not infringe, but it held that Defendant must pay over to Respondent the entire amount of profit it made on the sale of all such gears, regardless of whether infringement did or did not exist (R. 574).

The Circuit Court of Appeals for the Seventh Circuit held that it would be impossible to apportion the profits and further held that Respondent did not have the burden of making an apportionment (R. 574). Respondent neither attempted an apportionment nor showed that it was impossible to make one. Your petitioner, however, did offer expert testimony to that end.

## THE REASONS RELIED UPON FOR THE GRANT OF A WRIT OF CERTIORARI.

1. The United States Circuit Court of Appeals for the Seventh Circuit has decided an important question of law in a manner which is believed to be in direct conflict with applicable decisions of this Court in *Dowagiac* v. *Minnesota*, 235 U. S. 641; *Sheldon, et al.* v. *Metro-Goldwyn Pictures, et al.*, 309 U. S. 390; *Garretson* v. *Clark*, 111 U. S. 120; and *Black* v. *Thorn*, 111 U. S. 122; and other United States Circuit Courts of Appeals, particularly those for the Second and Sixth Circuits in *Metallic Rubber Co.* v. *Hartford Rubber Co.*, 275 Fed. 315 (C. C. A. 2) and *Egry Register Co.* v. *Standard Register Co.*, 23 Fed. (2d) 438 (C. C. A. 6).

2. The United States Circuit Court of Appeals for the Seventh Circuit has decided important questions of Federal

law, in a manner against public interest, and the effect of which is therefore of great public importance and interest.

3. The Court of Appeals erred in holding that where a patent is for an improvement and does not create the entire market value of an infringing device the patentee may, nevertheless, recover all of an infringer's profits.

4. The Court of Appeals erred in holding, in effect, that where all of the elements of an infringer's device are old, with the exception of one improved feature which is covered by the patent, the patentee is not required to make an apportionment of the infringer's profits.

5. The Court of Appeals erred in holding that an apportionment of profits need not be made when the patent is for an improvement that is an integral part of a device that is complete without the improvement.

6. The Court of Appeals erred in holding that a patentee may recover all of an alleged infringer's profits even though the saleability of the accused device was unaffected by whether or not it embodied the patented improvement.

7. The Court of Appeals erred in holding that an apportionment of profits need not be made when the patentee has failed to offer evidence to show that an apportionment is impossible, and when the record shows that the accused device was a complete, operative and saleable device without the patented improvement.

8. The Court of Appeals erred in holding that although all of the elements of the accused device, except for the patented improvement, were old and formed a complete saleable device, the patentee is entitled to recover the profits made on the old elements as well as on the new element, even though he makes no attempt at an apportionment.

9. The Court of Appeals erred in holding, in effect, that the burden is on an infringer to make an apportionment of profits where the patent is for an improvement constituting an integral part of an old, complete and saleable article.

10. The Court of Appeals erred, assuming infringement, in not holding that the Respondent, having failed to prove damages or profits attributable to the alleged use of Johnson's invention, or to have established a reasonable royalty, is only entitled to nominal damage, or, in the alternative, to not more than 6-8/10ths per cent of the profits made on Defendant's draft gears which were made and sold prior to the Decree, on the basis of the apportionment made by Petitioner's Expert, Prof. Endsley, offered under Section 70, Title 35 of the U. S. Code.

11. That the Court of Appeals erred in not accepting the evidence on the Accounting by the patentee, Johnson, establishing that none of the shoes in Plaintiff's Exhibit #1 of Defendant's gear had the infringing convexity.

## PRAYER.

Wherefore your petitioner respectfully prays that a writ of certiorari be issued out of and under the seal of this Court to the United States Circuit Court of Appeals for the Seventh Judicial Circuit sitting at Chicago, Illinois, commanding said Court to certify and send to this Court on a day to be designated, a full transcript of the record and all proceedings of the Court of Appeals had in this case, to the end that this case may be reviewed and be determined by this Court; that the judgment of the Court of Appeals for the Seventh Circuit be reversed, and that petitioner be granted such other and further relief as may seem proper.

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